REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MANDENI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mandeni Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No*. *1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mandeni Municipality as at 30 June 2011 and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DORA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Significant uncertainty

9. As disclosed in note 44 to the financial statements, the municipality is a defendant in a claim relating to the cancellation of a service contract before its expiry date. The timing and outcome of the reimbursement cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 37 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during 2010-11 in the financial statements of the Mandeni Municipality at, and for the year ended 30 June 2011.

Irregular expenditure

11. As disclosed in note 40 to the financial statements, irregular expenditure amounting to R9,3 million was incurred, as a result of contracts awarded to suppliers which contravened Municipal Supply Chain Management Regulations (GNR 868 of 30 May 2005) (Municipal SCM Regulations).

Material losses

12. As disclosed in note 4 to the financial statements, indigent debtors amounting to R9,9 million has been written off during the year. In addition, the impairment of doubtful debts has increased by R9,7 million, due to the non-recovery of rates and service debtors.

Additional matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

14. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010.* I include below my findings on the annual performance report as set out on pages … to … and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

17. The following criterion is relevant to the finding below:

 - Performance against predetermined objectives is reported using the National Treasury guidelines.

18. The following audit finding relates to the above criterion:

Measures taken to improve performance were not provided in the report on predetermined objectives

19. Measures taken to improve performance were not provided in the annual performance report, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

Usefulness of information

20. The following criterion is relevant to the finding below:

 - Measurability: Indicators are well-defined and verifiable, and targets are specific, measurable and time bound.

21. The following audit finding relates to the above criterion:

Planned and reported targets are not time bound

22. For the selected objectives, 68% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

Compliance with laws and regulations

Annual financial statements, performance and annual report

23. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1)(a) of the MFMA. Material misstatements in grants, property plant and equipment, liabilities, expenditure, disclosures and employee benefits were identified by the auditors and subsequently corrected resulting in the financial statements receiving an unqualified opinion.

Audit committee

24. The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:

 - Meet at least twice during the financial year
 - Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
 - Review the municipality's performance management system and make recommendations in this regard to the council of the municipality

- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

25. The internal auditors of the municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the accounting officer and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

26. Goods services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of Municipal SCM Regulations 17(a) and (c).

27. Quotations were accepted from prospective providers who are not on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of Municipal SCM Regulations 16(b) and 17(b).

28. Awards were made to providers whose tax matters had not been declared by the South African Revenue Services to be in order, as required by Municipal SCM Regulation 43.

Expenditure management

29. The accounting officer did not take reasonable steps to detect and prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

30. The municipality did not investigate and recover irregular expenditure from the liable person, as required by section 32(2) of the MFMA.

INTERNAL CONTROL

31. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010,* I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

32. The accounting officer did not implement adequate systems and procedures to ensure compliance with Municipal SCM Regulations including the appointment of a dedicated SCM Manager.

33. The municipal council did not develop a comprehensive action plan incorporating all 2009-10 external audit findings pertaining to irregular expenditure including measures taken to investigate and prevent such expenditure.

Financial and performance management

34. The chief financial officer has not produced credible reports to council by ensuring that reliable, accurate and complete monthly financial statements are prepared and reviewed.

Governance

35. The audit committee did not review the financial statements for reliability, completeness and accuracy before submission thereof to the auditors.

36. The performance audit committee did not provide assurance to council on the credibility of performance against predetermined objectives by evaluating and monitoring responses to risks and providing oversight over the performance information process.

OTHER REPORTS

Investigations in progress

37. Investigations are in progress relating to allegations of SCM irregularities against the municipal manager and allegations of fraud against officials in the traffic department.

Pietermaritzburg

30 November 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence